



SOUTHWEST VIRGINIA HIGHER EDUCATION CENTER

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2015

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Southwest Virginia Higher Education Center for the period July 1, 2012, through June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Perform Fixed Asset Inventory

The Southwest Virginia Higher Education Center (Higher Education Center) is not conducting a full fixed asset inventory at least every two years as required by Topic 30505 of the Commonwealth Accounting Policies and Procedures (CAPP) Manual. By not completing full inventories, the Higher Education Center is not able to confirm that assets are within the control of the agency and this may result in inaccuracies in reporting account balances for capital assets. Management should ensure that a full fixed asset inventory is taken every two years.

Follow Established Departing Employee Procedure

During fall 2014, the Higher Education Center developed a Departing Employee User Procedure. However, the Higher Education Center is not adhering to this process for employees that have terminated employment with the agency. Higher Education personnel were unable to provide completed off-boarding checklists. In addition, two employees out of seven (29 percent), retained logical access to critical systems between 11 and 15 months after their termination date. By not completing off-boarding checklists and revoking access to critical systems timely, the Higher Education Center increases risk of unauthorized access and a potential breach of sensitive information, which could result in legal, financial, or reputation damages.

Management should review existing procedures and strengthen adherence. Management should ensure that access to critical systems is revoked timely to reduce the level of risk to its information systems security environment.

Complete the Disaster Recovery Plan

The Higher Education Center does not have a completed disaster recovery plan. The Commonwealth's Information System Security Standard, SEC 501-09 (Security Standard), requires that the Higher Education Center develop and maintain a disaster recovery plan which includes the steps necessary to restore mission essential functions and supporting business functions. Additionally, the plan is required to document recovery time objectives, recovery point objectives, and restoration prioritization of information technology resources.

Management should perform a comprehensive review of its current disaster recovery plan and evaluate its compliance with the Security Standard. Additionally, Higher Education Center management and information technology personnel should collaborate on ensuring that all components of the disaster recovery plan have been documented, approved, and tested in accordance with the Security Standard.

AGENCY HIGHLIGHTS

The Southwest Virginia Higher Education Center (Higher Education Center), located in Abingdon, Virginia, partners with public and private colleges and universities to provide degree programs, certificates, and professional development courses. The Higher Education Center's academic partners include King University, Old Dominion University, Radford University, the University of Virginia, University of Virginia's College at Wise, Virginia Commonwealth University, and Virginia Tech. The Higher Education Center encompasses a variety of learning options for students ranging from face-to-face instruction to online study.

The Higher Education Center engages in a number of K-12 initiatives to include the A. Linwood Holton Governor's School, Kids' Tech University, REAL Tech Experience, Robotics League, Southwest Virginia Education and Training Network, and a STEM Program for Sixth grade girls. The Higher Education Center provides a Testing Center which collaborates with private testing firms which proctor exams for business professionals and students wishing to pursue advanced degrees. The Higher Education Center has also launched an initiative known as College for Older Adults. This program provides for community outreach and extends non-credit short courses such as history, finance, language and wellness to learners over age 50.

The Higher Education Center is vital to providing scholarships to students within Southside and Southwest Virginia by administering the Tobacco Region Scholarship Program. The program, coordinated in conjunction with the Tobacco Region Revitalization Commission (Tobacco Commission), serves to strengthen the economies of Southwest and Southside Virginia by providing educational assistance to eligible students who live in respective localities and are enrolled in a Bachelor's Degree program at an accredited four-year college or university, whether public or private, in-state or out-of-state.

FINANCIAL HIGHLIGHTS

Tables 1 through 3 below illustrate the Higher Education Center's final budget and actual expenses for fiscal years 2013 through 2015. During fiscal year 2013, the Higher Education Center received approximately 21 percent of its operating budget from General Fund appropriations and the remaining 79 percent from special revenue, which is derived from the Foundation, agreements with academic partners, community educational programs, facility rentals and the Tobacco Indemnification and Community Revitalization Commission. The Higher Education Center received VCBA 21st Century Program funds for dedicated maintenance reserve projects. Excluding maintenance reserve allocations, revenue streams for the Higher Education Center remained relatively flat with the Higher Education Center, receiving a slight increase of General Fund appropriations to 22 percent of its operating budget for fiscal years 2014 and 2015.

Final Budget and Actual Operating Expenses by Funding Source

Fiscal Year 2013

Table 1

Funding Source	Final Budget	Actual Expenses
General	\$1,877,315	\$1,877,315
Special Revenue	7,188,377	5,033,726
VCBA 21 st Century Program	50,000	50,000
Total	\$9,115,692	\$6,961,041

Fiscal Year 2014

Table 2

Funding Source	Final Budget	Actual Expenses
General	\$2,008,464	\$2,008,464
Special Revenue	7,305,877	5,269,838
VCBA 21 st Century Program	50,000	-
Total	\$9,364,341	\$7,278,302

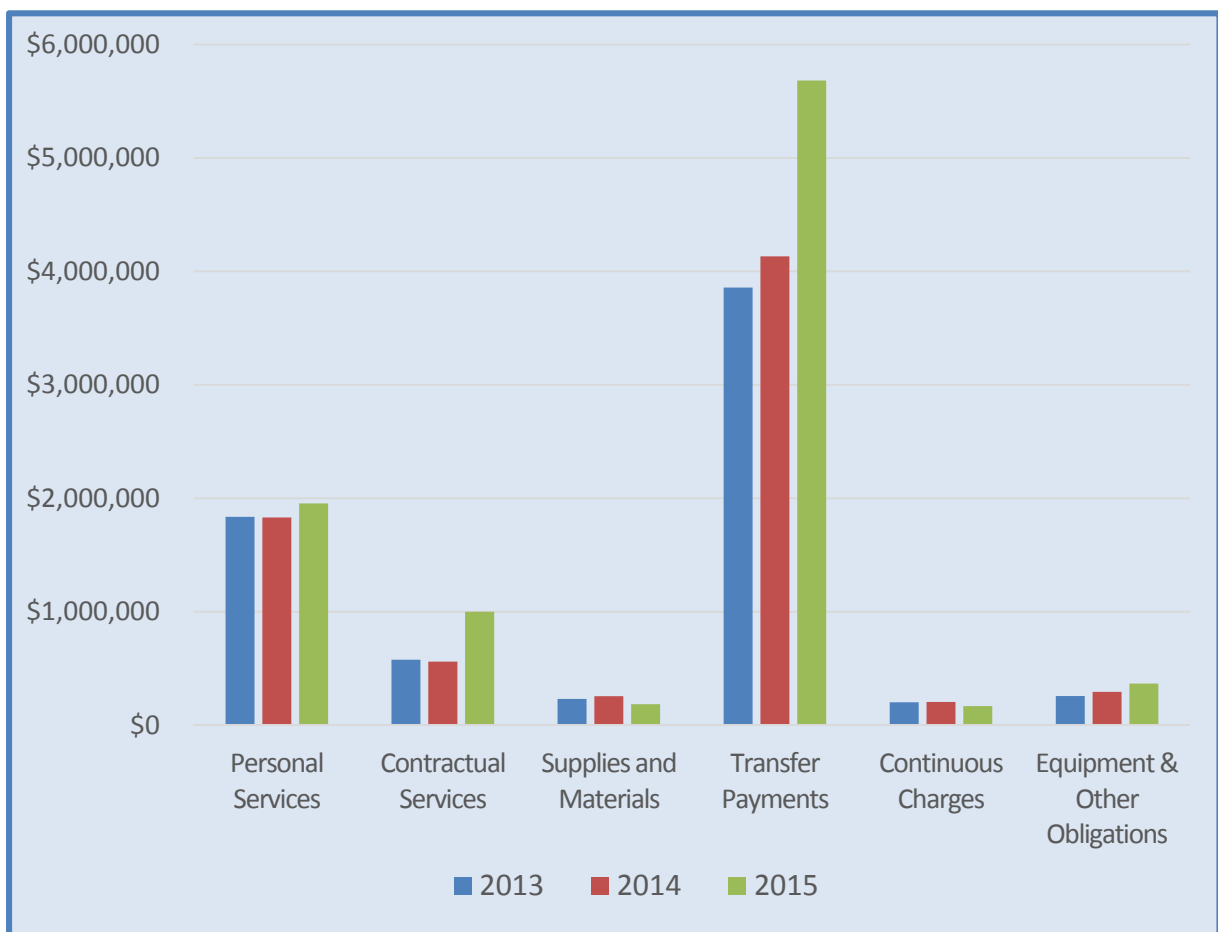
Fiscal Year 2015

Table 3

Funding Source	Final Budget	Actual Expenses
General	\$2,049,944	\$2,049,944
Special Revenue	7,306,556	7,306,556
VCBA 21 st Century Program	566,529	2,039
Total	\$9,923,029	\$9,358,539

During fiscal years 2013 through 2015, the Higher Education Center spent over \$23.5 million in total operating expenses as illustrated below. Due to the educational mission and collaboration with academic partners, scholarship transfer payments represent \$13.6 million or 58 percent, and continues to be the Higher Education Center’s largest operating expense. The Higher Education Center spent \$5.6 million on personal services, representing 24 percent. Contractual services, continuous charges, and supplies and materials account for \$3.3 million or 14 percent of total operating expenses. Equipment and other obligations account for four percent. The Higher Education Center remains extremely reliant upon special revenue funds to meet operating needs.

Operating Expense by Category



Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 24, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Southwest Virginia Higher Education Center** (Higher Education Center) for the period July 1, 2012, through June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Higher Education Center's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Higher Education Center's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Tobacco scholarship collections and distributions
Contractual services expenses
Payroll expenses
Small purchase charge card
Funds handling and cash receipting
Appropriations
Fixed assets
Information system security

We performed audit tests to determine whether the Higher Education Center's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Higher Education Center's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Higher Education Center properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Higher Education Center records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on June 22, 2016. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JRQ/alh

July 9, 2016

Ms. Martha S. Mavredes, CPA
Auditor of Public Accounts, Commonwealth of Virginia
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Southwest Virginia Higher Education Center has reviewed the audit report for the fiscal years ended June 30, 2013 through June 30, 2015. We appreciate the opportunity to provide our comments on the report.

The Center acknowledges and concurs with the three findings outlined in the *Audit Findings and Recommendations* section of the report. Immediate steps have been taken to begin remedying these findings to bring the Center into compliance. We would like to take this opportunity to provide you with a status update on our compliance efforts.

Perform Fixed Asset Inventory

The Center is developing processes and procedures to improve its fixed asset inventory and tracking methods. An annual physical inventory will be completed on or before March 1st of each year. This inventory will include capital and non-capital asset items. The Center will work to ensure that the fixed asset and inventory tracking processes are clearly defined and applicable policies are followed.

Follow Established Departing Employee Procedure

The Center has developed an off-boarding checklist for departing employees that addresses this finding. The Human Resources Department will be responsible for initiating the process when an employee departs so that the Information Technology (IT) Department is made aware that access changes need to be made. A copy of the checklist will also be sent through all other Center departments so that those departments may take appropriate action to process matters relating to a departing employee.

Complete the Disaster Recovery Plan (DRP)

The Center has previously considered continuity of Information Technology (IT) operations as part of its required Continuity of Operations (COOP) planning. The Center will work toward developing the required DRP for IT operations. It is anticipated that developing the DRP will take up to 6 months with an expected completion date of December 15, 2016.

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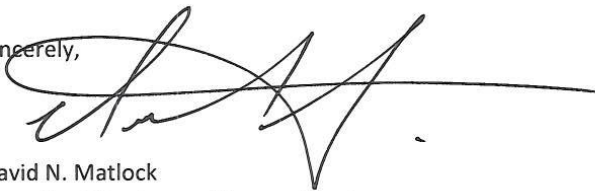
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On behalf of the Center, I would like to extend our appreciation to the audit team from APA. The team was very professional in performing their duties. The Center strives to ensure that we comply with all applicable laws, rules, and regulations in the performance of our duties.

We appreciate the assistance of the APA as we work to carry out our mission serving the citizens of Southwest Virginia and the Commonwealth.

Please contact me if I can be of further assistance. Again, I would like to thank you and your staff for the valuable services you provide.

Sincerely,



David N. Matlock
Executive Director and Agency Head
Southwest Virginia Higher Education Center

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SOUTHWEST VIRGINIA HIGHER EDUCATION CENTER

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